



Financial Affairs Committee
March 13, 2003

1. Participants

--Ron Jacobsma, FWUA	--George Senn, CVPWA
--Russell Harrington, Westlands WD	--Robert Stackhouse, CVPWA
--Lynn Hurley, SCVWD	--Chase Hurley, Panoche WD
--Alan Thompson, EBMUD	--Frances Mizuno, SLDMWA (Call-in)
--Dennis Michum, GCID	--Henry McLaughlin, City of Fresno (Call-in)
--Mike Hagman, TCCA	--Anthea Hansen, Del Puerto WD
--Ed Roman, SMUD	--Jeff Phipps, NCPA
--Larry Bauman, BOR	--Jesus Reynoso, BOR
--Mike Finnegan, BOR (Call-in)	--Craig Muehlberg, BOR

2. Opening Business

The March meeting was held in the ACWA Office upstairs Conference Room, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded around 11:30 a.m. The FAC subcommittee working the CVP Capital Rate Setting issue met immediately after the FAC meeting. The agenda was reviewed and approved. One discussion item was added —the 2003 CVP CFO Audit. The next meeting will be held on May 16 in the ACWA upstairs Conference Room.

Other Business.

Ron Jacobsma began a discussion regarding filling the FAC Chair and Vice-Chairs positions. It was pointed out during the Jan FAC meeting that the two-year term limit for the Chair and Vice-Chair positions was about to expire. Notifications were sent out to the FAC membership to find out if any member agency representative would be interested in filling any of the positions. It was agreed that we would formally fill the positions during the March FAC meeting. Ron and each of the Vice-Chairs said that they were willing to serve another term but if anyone else were interested in assuming any of the positions they would be understanding of that desire. Since no one came forward to fill any of the positions, Ron Jacobsma will continue as the FAC Chair for the next two years, and Chase Hurley, Alan Thompson, and Ed Roman will continue in the Vice-Chair positions for Irrigation, M&I, and Power, respectively.

3. **FAC Issues Matrix Status.**

- A. **Capital Ratesetting and Cost Recovery.** Larry reported that nothing has been done regarding the Capital ratesetting issue since early last year due to other pressing work. He said that the ratesetting work will be a high priority for 2003 and he expects to get the work going again within the next month or so. A meeting of the Capital rate-setting team will be held immediately following this meeting. The team will discuss what needs to be done to get the issue resolved.
- B. **PUE Issues--Post 2004 O&M Sub-allocation.** Ron reported that the PUE Issues team has completed development of potential cost allocation formulas for each of the various types of Reclamation and Western power-related O&M costs that may be encountered when the load-balancing contract with PG&E expires at the end of 2004. He said that the CVPWA has contracted with Stuart Robertson of Robertson-Bryan, Inc., to assist the water contractors in evaluating the benefits, costs, and equity of power purchases to support project pumping loads when CVP generation will not be sufficient to meet those loads, as well as the formulas that were developed to allocate power O&M costs between PUE and Preference power users. He was also tasked with coming up with an inexpensive way to evaluate the benefits (of using CVP-generated power) that accrue to the PUE and Preference power users.

Mike Finnegan said that Reclamation and Western have held a series of meetings during the past month to discuss the post-2004 cost sub-allocation issue and Western has concerns that the issue needs to be resolved soon. He said that for operational considerations, it is imperative that we conclude the sub-allocation process as soon as possible. Mike recognizes that we are waiting for data from Navigant to complete our analysis of the formulas developed to allocate post-2004 costs and that our meeting on March 21 is predicated on us having the Navigant data. Chase Hurley commented that the March 21 meeting probably should be postponed if the Navigant data is not available for us by March 17. Mike agreed that the March 21 date can slip because Reclamation had committed to providing us with the data to complete our analysis, however he stressed that after the Navigant data has been reviewed and modeling completed, we need to reach consensus quickly. If we cannot, he will ask Martin Bauer to provide him with the preferred way to allocate post-2004 power purchases.

- C. **Cost Recovery for CVPIA Programs and Activities.** Larry reported that his staff is continuing to reconcile the accumulated costs associated with CVPIA programs and activities to ensure that the data is correct. He expects the reconciliation process to be completed by mid-May. Jesus Reynoso said that he hopes to get the reconciled data to the water contractors for their review by May 12. He said that he is documenting all CVPIA costs incurred through September 30, 2002, including construction work-in-progress accounts. He is making sure that F&WS costs are not being picked up twice (multi-purpose CVP costs/CVPIA costs). Ron commented that Reclamation should come up with a better way to coordinate F&WS reporting of CVPIA costs. Mike commented that Westlands Water District was the only water contractor to submit comments regarding the proposed CVPIA cost recovery/accounting process. He

suggested that water contractor concerns be forwarded to Reclamation ASAP as he wants to formulate Reclamation business practice guidelines by June 30, 2003. Russell Harrington and Jeff Phipps agreed to consolidate comments received from the various water contractor representatives and draft a letter to Reclamation that will be signed by Robert Stackhouse, Manager, CVPWA. Stackhouse commented that he disagrees with the accounting of some CVPIA costs associated with the construction of fish screens—he feels that some of the costs should be non-reimbursable. Mike requested that the comment letter provide examples or documentation to support any contention that certain costs deemed reimbursable by Reclamation should be non-reimbursable. Stackhouse emphasized that while the water contractors support the process used by Reclamation to provide dollar for dollar credit for all expenditures from the Restoration Fund, they have reserved the right to question the handling of all accumulated and future costs, as necessary.

- D. Reclamation Water Accounting Program Development.** Larry reported that the new system (BOR WORKS) is working well and that Reclamation will continue to run BOR WORKS parallel with the old system (WORKS) through April. If all goes well, the new BOR WORKS water accounting program will go live on May 1. He said that Reclamation has had some problems with the web-enabled portion of the program and had to cancel scheduled water contractor representative training. As soon as the problems are corrected he will reschedule the training, which will first be offered to those water contractor representatives who assisted Reclamation during the program development. He has yet to determine how web-enabled training will be offered to all of the interested water contractors.
4. **CFO Audit Impacts.** Ron reported that the CFO audit adjustments that were made by Reclamation and incorporated into the CVP water rates are final. He said that Reclamation informed us that a capital asset that is constructed with federal funds, but is not located on federal-owned land, must be treated as an expense. We agree that for accounting purposes such assets should be expensed. However, we believe that for repayment purposes, the asset should be amortized over its remaining life. Mike said that this accounting problem primarily affects only Reclamation's Mid-Pacific Region. Mike Hagman asked when he could expect a response to the letter that the Tehama-Colusa Canal Authority had sent to Reclamation some 5 months ago, regarding this issue. Mike Finnegan said that the response is being prepared by the Denver Office and should be available soon. Ron said that the next step would be to obtain legislative relief.
5. **Warren Act Revenue Application.** Ron reported that Reclamation recently notified us that the Warren Act of 1911 only allows revenues derived from the conveyance of non-project water through CVP storage and conveyance facilities to be credited to the Reclamation Fund. According to Reclamation, to credit Warren Act revenues against current O&M costs as requested by the CVP water contractors, would require additional authority from Congress. Ron said that the water contractors are in the process of seeking legislative relief.
6. **Fall Budget Workshop.** Mike reported that Reclamation has drafted a Reclamation-wide Budget Process Policy document that will define customer involvement in the Reclamation

budget process. Although the Spring Budget Workshop was not held this year, primarily due to lack of staff resources, the Fall Budget Workshop will be held as scheduled. He hopes to get the budget workshops back on track in 2004.

7. **Water Transfer Issues.** Larry reported that the water transfer policy for 2003 would be the same as the one issued for the 2002 water year, with the exception that direct pumping will not be included as an incremental cost. During the last FAC meeting we were told that Donna Tegelman, MP-400, would convene a group of water contactors in the near future to develop a final water transfer policy. Due to health problems, Donna has not been available to get the effort started. Mike Finnegan said that it is imperative that we get something in writing to memorialize the CVP water transfer policy.

8. **Reports on Ongoing FAC Interest Issues.**

A. **Direct Funding Agreements.** The Friant Water Users Authority and the San Luis and Delta-Mendota Water Authority have approved the revised memorandum of understanding between the Authorities as well as the amendment to the Transfer Agreements.

B. **Funding the Sumner Peck Lawsuit Settlement.** Russell Harrington reported that the Justice Department would pay the first installment of \$34 million to the affected parties from its Judgment Fund. There is no word yet on how the second and third installments will be funded.

C. **Arroyo Pasajero.** Russell Harrington reported that Reclamation might be required to pay the Department of Water Resources (DWR) its share of the claim stemming from the Arroyo Pasajero fatalities in 1995. He asked the Reclamation representatives whether this cost would be reimbursable. Westlands Water District strongly believes that these costs should be non-reimbursable. Larry Bauman agreed to look into the issue. Russell also commented that DWR would be doing work on the west bank of the San Luis Canal to expand the West Bank Detention Facility back to its original capacity of 18,000 AF. Russell also asked if these costs would be considered non-reimbursable since they are for work to expand a flood control facility. Larry said that the San Luis Unit does not have flood control as an authorized purpose, but agreed to research the issue. Russell also commented that Westlands was looking at the possibility of building a facility on district land located near the south end of the district to solve the Arroyo Pasajero flooding problem. He said this location would provide a less expensive solution to the flooding problems.

9. **2003 Reclamation Financial Audit.** Mike Finnegan alerted us that the 2003 Chief Financial Officer (CFO) audit would get under way July 1, 2003. He said that the audit shows signs of being broader than the 2002 audit.